

SECTION 10

TARIFF POLICY



NALEDI LOCAL MUNICIPALITY

Council resolves to adopt the following proposal as the Tariff Policy of the Naledi Local Municipality

Policy effective date:	01 JULY 2020
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1. INTRODUCTION

In terms of Section 74 of the Local Government: Municipal Systems Act, 2000 the municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

The tariff policy must at least reflect the principles set out in section 74(2) of the Municipal Systems Act.

The tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

2. PURPOSE

The Naledi Local Municipality wishes to achieve the following objectives by adopting this tariff policy:

- 2.1. To comply with the provisions of Section 74 of the Local Government Municipal Systems Act, Act 32 of 2000.
- 2.2. To prescribe procedures for calculating tariffs where the Naledi Local Municipality wishes to appoint service providers in terms of Section 76(b) of the Local Government Municipal Systems Act, Act 32 of 2000.
- 2.3. To give guidance to the councillor responsible for Finance and Auditing regarding tariff proposals that must be submitted to Council annually during the budget process

3. GENERAL PRINCIPLES

- 3.1. Service tariffs imposed by the Naledi Local Municipality shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion.

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3.2. The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

3.3. Tariffs for the four major services rendered by the municipality, namely:

3.3.1. Electricity

3.3.2. water

3.3.3. sewerage (waste water)

3.3.4. refuse removal (solid waste)

Shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff that a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

3.4. The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the four major services further generate an operating surplus each financial year of 10 percent or such lesser percentage as the council may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

3.5. Indigent households will have access to basic services through indigence relief approved by the Council in accordance with the Integrated Development Plan and Section 74(2)(c)(i) and (ii) of the Municipal Systems Act from time to time and shall be funded from the annual Equitable Share Grant granted to the Council and is subject to the availability of funds from the Grant.

3.6. The municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs that it levies on registered indigents, and the implications of such policy for the tariffs that it imposes on other users and consumers in the municipal region.

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- 3.7. In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs that it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each.
- 3.8. The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be disclosed to users.
- 3.9. The municipality shall ensure that its tariffs shall be readily understandable by all users affected by the tariff policy.
- 3.10. The municipality undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 3.11. In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service that they consumed.
- 3.12. In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question
- 3.13. In considering the costing of its water, electricity and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which

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fluctuate significantly over shorter periods are also met. This may imply that the services may at times or for certain periods operate at less than full capacity, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

3.14. The following principles will also apply:

- a) Free services will only be possible if the National Government pay to the municipality an equitable share subsidy, which covers the full costs of the free services.
- b) All users of municipal services will be treated equitably. Save for poor households and deserving categories of users, the various categories of customers will pay the same charges based on the same cost structure.
- c) The amount payable by consumers will be in proportion to usage of the service.
- d) Indigent households must at least have access to basic services through lifeline tariffs or direct subsidisation.
- e) Tariffs must reflect the total cost of services.
- f) Within limits, customers should be free to choose from a range of applicable tariffs.
- g) Tariffs must be set at a level that facilitates the sustainability of services.
Sustainability will be achieved by ensuring that:
 - i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
 - ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- h) Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be required during a national disaster and periods of droughts when a restriction of usage is required.
- i) Providing for penalties to prohibit exorbitant use will encourage efficient and effective use of resources.
- j) The extent of subsidisation of tariffs will be disclosed.
- k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable.
- l) A property used for multiple purposes must, for purposes of these tariffs be assigned to a category determined by the council for properties used for a purpose corresponding with the dominant use of the property if the Municipality cannot

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readily make an apportionment in relation to the services concerned and the categories of users.

- m) In order to provide the Municipality with appropriate security for payment of amounts owing to it from time to time for services rendered, the Council shall impose a system of deposits payable by customers. The deposits shall be set with due regard to the potential financial risk associated with the amounts owing from time to time. The level of the deposits shall be revised annually and the Municipality may introduce transitional arrangements in respect of existing users.

4. DEFINITIONS

In this tariff policy, unless the context otherwise indicates –

“agricultural consumers” means consumers engaged in agriculture as defined in LUPO,

“break even” means the financial situation where the income derived by the Municipality from the supply of a service is equal to the aggregate of the fixed and the variable costs associated with the provision of the service concerned;

“commercial consumers” means shops, offices, liquor stores, governmental institution (unless otherwise stated), supermarkets, public garages, gathering places (unless otherwise stated), nurseries, places of entertainment, service stations, hairdressing salons, caravan parks, banks, hotels, hospitals, clinics, guesthouses, boarding houses and doctor and dentist consulting rooms and suchlike business undertakings;

“community service” means the services referred to in paragraph 5(1)(c) [that the Council has classified as such] and in respect of which the tariffs are set at a level that the costs of the services are not recovered fully from public service charges and are of a regulatory nature;

“consumer” means the occupier of any premises which the Naledi Local Municipality have agreed to supply with a municipal service or the owner of such premises or any other person who has entered into an agreement with the Municipality for the supply of a service or who is lawfully obtaining the service from the Municipality;

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"the council" means Municipal Council, and "municipal council" shall have a corresponding meaning;

"councillor for financial services" means the councillor of the municipal council responsible for financial services;

"domestic consumers" means residential properties, group housing, town houses, semidetached houses and suchlike properties;

"due date" –

- a) in relation to accounts payable monthly on a recurring basis, the 15th day of the month which follows on the month during which an account is rendered;
- b) in relation to accounts payable annually, 30th September unless otherwise provided by any other law; and
- c) in all other instances, as and when demand for payment is made by the Municipality;

"economic services" means services in respect of which the tariffs are set at a level that the total costs of the services are recovered from customers;

"educational institutions" means schools (unless otherwise stated), colleges, universities and suchlike institutions;

"flat rates" means the unit

"the Finance Act" means the Local Government : Municipal Finance Management Act, 2003 (Act No 56 of 2003);

"fixed costs" means costs which do not vary with consumption or volume produced

"indigent households" means households that are registered at the municipality as such and meet the municipality's criteria in terms of its credit control and debt collection policy and

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occupying a property within the jurisdiction of the municipality and "poor households" shall have a corresponding meaning;

"industrial consumers" means industrial undertakings, factories, warehouses, workshop, scrap yards, wine cellars, abattoirs, dairy processing plants, fish markets and suchlike consumers;

"LUPO" means the Land Use Planning Ordinance (Cape Ordinance 15 of 1985, as amended);

"Municipality" means when referred thereto as–

- a) an entity, Naledi Local Municipality as a municipality described in Section 2 of the Local Government : Municipal Systems Act, 2000 (Act 32 of 2000), including a duly authorized official of Naledi Local Municipality; and
- b) a geographical area, the area of jurisdiction of Naledi Local Municipality as determined in terms of the Local Government : Municipal Demarcation Act, 1998 (Act 27 of 1998);

"owner" in relation to a property, means the person in whose name the property is registered in the Deeds Registry and such owner's successors;

"public benefit organisations" means public benefit organizations as defined in Section 30 of the Income Tax Act No 58 of 1962;

"resident " means a person who ordinarily resides in the municipal area;

"special agreements" means special tariff agreements entered into with categories of consumers making significant economic contributions to the community and create job opportunities;

"sport and recreation facilities" means properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption;

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"the Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act no 32 of 2000);

"total cost" means the sum of all fixed and variable costs associated with a service;

"trading services" means services and in respect of which the tariffs are set at a level that the Council makes a profit on the delivery of the services;

"two-part tariffs" means tariffs that are raised to recover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed;

"units consumed" means the number of units consumed of a particular service and are measured in terms of the tariff structure reflected in paragraph 7;

"Variable costs" means costs that vary with consumption or volume produced

"VAT" means Value-Added Tax in terms of the Value-Added Tax Act, 1991, as amended;

any reference in this tariff policy to 'an availability charge' in relation to a particular service (eg. water) shall mean an amount payable by the consumer in respect of the service because the consumer may reasonably be connected to the service which is available although the property concerned is not in fact so connected. In contrast hereto a 'minimum charge' shall refer to the minimum amount payable by the consumer in respect of a particular service irrespective of the extent to which the service is used during any given period of time.

5. CATEGORIES OF CUSTOMERS

5.1. Separate tariff structures may be imposed for the following categories of consumers (which the council may change):

- a) Domestic consumers;
- b) Commercial consumers;
- c) Industrial consumers;
- d) Agricultural consumers;

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- e) Municipalities;
- f) Consumers with whom special agreements were made;
- g) Consumers in certain geographical areas;
- h) Sport and recreation facilities
- i) Educational institutions; and
- j) Public benefit organisations and suchlike institutions.

5.2. In line with the principles embodied in the Constitution and in other legislation local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs that it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each Annual Budget.

6. SERVICE AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS

6.1. Service classification

The Chief Financial Officer shall, subject to the guidelines provided by the National Treasury of the Department of Finance and Mayoral Committee of the council, make provision for the following classification of services.

6.1.1. Trading services

- a) Water
- b) Electricity

6.1.2. Economic services

- a) Sewerage disposal
- b) Refuse Removal
- c) Fixed billboards and the display of advertisements in public places
- d) Recreation resorts
- e) Airport Services

6.1.3. Community Services

- a) Air pollution
- b) Administration and Treasury Services
- c) Building control
- d) Cemeteries
- e) Child care facilities

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- f) Control of public nuisances
- g) Fire fighting and emergency assistance
- h) Licensing and control of undertakings that sell food to the public
- i) Licensing of dogs
- j) Local amenities
- k) Local sport facilities
- l) Local tourism
- m) Municipal parks and recreation
- n) Municipal planning
- o) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law
- p) Municipal roads
- q) Nature Reserves
- r) Noise pollution
- s) Pounds
- t) Public places
- u) Storm water management system in built-up areas
- v) Street lighting
- w) Street trading
- x) Trading regulations
- y) Traffic

6.1.4. Subsidized Services

- a) Health and ambulance
- b) Libraries and museum
- c) Proclaimed Roads

6.2. Expenditure classification

Expenditure will be classified in terms of Generally Recognised Accounting Practise (GRAP)

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6.3. Cost elements

6.3.1. The following cost elements will be used to calculate the tariffs of the different services:

- a) Fixed costs that consist of the capital cost (depreciation on assets and capital redemption on external loans only) and any other costs of a permanent nature as determined by the council from time to time.
- b) Variable costs. This includes all other expenditure that has reference to the services.
- c) Total cost is equal to the fixed costs plus variable cost.

7. TARIFF TYPES

In determining the type of tariff applicable to the type of service the municipality shall make use of the following six options or a combination of the same.

- 7.1. Single tariff: this tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer the council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.
- 7.2. Cost related two to three part tariffs: this tariff shall consist of two to three parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed. Three part tariffs will be used to calculate the tariff for electricity and to provide for maximum demand and usage during limited demand.
- 7.3. Inclining block tariff: this tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. The first step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.
- 7.4. Declining block tariff: this tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. The first step will be calculated by dividing the fixed and variable cost and profit determined by council from time to time by the volume consumed. This tariff will only be used for special agreements.

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7.5. Regulating tariff: this tariff is only of a regulatory nature and the municipality may recover the full or a portion of the cost associated with rendering the service

7.6. Time-of-use tariff: this tariff is based on fixed charges and seasonally and time differentiated energy and demand charges

8. CALCULATION OF MAJOR TARIFFS FOR MAJOR SERVICES

8.1. Tariffs due to costs of operation

In order to determine the tariffs that must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- 8.1.1. Cost of bulk purchases in the case of water and electricity.
- 8.1.2. Distribution costs, including distribution losses in the case of water and electricity.
- 8.1.3. Depreciation and finance charges.
- 8.1.4. Maintenance of infrastructure and other fixed assets.
- 8.1.5. Administration and service costs, including:
 - a) Service charges levied by other departments delivering support services, such as finance, human resources and legal services.
 - b) Reasonable general overheads, such as the costs associated with the office of the Municipal Manager, and Managers directly responsible to the Municipal Manager for certain services.
 - c) Adequate contributions to the provisions for bad debts and obsolescence of stock.
 - d) All other ordinary operating expenses associated with the service concerned, including, in the case of the Electricity Service, the cost of providing street lighting in the municipal area.
 - e) The intended surplus to be generated for the financial year

8.2. Water

- 8.2.1. The categories of water consumers as set out below shall be charged at the applicable tariffs as approved by the council in each annual budget.

Categories of consumption and charges

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- 8.2.2. The municipality shall provide the first 6kl of water per month free of charge to all approved indigent households consumers.
- 8.2.3. Because water is a scarce national resource and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.
- 8.2.4. The tariffs for domestic consumption shall be based on the levels reflected in the following table:

	Kiloliters per month		
Step 1	0	To	6
Step 2	7	To	15
Step 3	16	To	30
Step 4	31	To	50
Step 5	51	And	Above

- 8.2.5. The cost of water in the first three steps will be calculated at break-even and will include any basic/availability charges.
- 8.2.6. The non-domestic consumers tariff shall be based on the levels reflected in the following table:

	Kiloliters per month		
Step 1	0	To	6
Step 2	7	To	15
Step 3	16	To	30
Step 4	31	To	50

- 8.2.7. A basic charge per water meter in the rural area as determined by the Council from time to time may be charged on all water consumers, except consumers using pre-paid meters.
- 8.2.8. Where consumers are not connected to the water services or consumers that can reasonable connect to the service within an approved township establishment, an availability tariff will be payable.

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8.3. Electricity

- 8.3.1. The guidelines and policy issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- 8.3.2. To make electricity affordable to certain categories of consumers, cross subsidisation between and within categories of consumers, will be allowed based on the load factors or categories and consumers within the category.
- 8.3.3. The fixed costs or portions thereof will be recovered through an energy or time-of-use charge

8.4. Refuse Removal

- 8.4.1. A separate fixed monthly refuse removal charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary from once a week up to 7 times a week.
- 8.4.2. The fixed basic charge will be based on volume removed and the costs associated with its disposal

8.5. Sewerage

- 8.5.1. The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

Categories of usage and charges

- 8.5.2. A Basic (availability) charge per month shall be charged on undeveloped land
- 8.5.3. A fixed monthly charge sewerage charge shall apply to each category of users based on the costs of the services concerned and the applicable levels of services that can vary, e.g. night soil removal service, cesspool service, waterborne sewerage service ect.
- 8.5.4. An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of purification.

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9. MINOR TARIFFS

9.1. All minor tariffs shall be standardized within the municipal region.

9.2. All minor tariffs shall be approved by the Council in each Annual Budget, and shall, when deemed appropriate by the Council, be subsidized by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

9.3. All minor tariffs over which the municipality has full control shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustments should not be effected.

9.4. Minor tariffs shall include the following:

- 9.4.1. cemetery fees
- 9.4.2. connection and reconnection fees
- 9.4.3. housing rental
- 9.4.4. library fees, being
 - membership fees
 - fines
 - lost books
 - lost membership cards
- 9.4.5. rental for utilizing municipal premises and municipal sports grounds
- 9.4.6. rental for utilizing municipal property
- 9.4.7. lease of municipal property
- 9.4.8. building plan fees
- 9.4.9. advertisement sign fees
- 9.4.10. plastic bag sales
- 9.4.11. refuse bin sales
- 9.4.12. cleaning of overgrown stands
- 9.4.13. connection fees for major municipal services
- 9.4.14. Photostat copies and faxes

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- 9.4.15. clearance certificate memoranda
- 9.4.16. pound fees
- 9.4.17. cleansing of sewerage blockages
- 9.4.18. electricity or water disconnection and reconnection fees
- 9.4.19. the provision of information from the Council's records
- 9.4.20. sale of live stock
- 9.4.21. garden refuse removal.

9.5. The accounting officer shall maintain a list of all minor services indicating their unit of service for the purpose of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees, charges and levies.

10. NOTIFICATION OF TARIFFS, FEES AND SERVICES CHARGES

- 10.1. After the draft budget as required by the Local Government: Municipal Finance Management Act (MFMA) has been tabled, the accounting officer must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 10.2. After approval of the budget, the Council will give notice of all tariffs approved at the annual budget meeting at least 30 days prior to the date the tariffs become effective.
- 10.3. A notice stating the purpose of the council resolution, date on which the new tariffs shall become operational and the Municipality will advertise invitation for objections.
- 10.4. All tariffs approved must have been considered at the annual budget meeting.

11. DELEGATION OF POWERS AND AUTHORITY

11.1. Delegation

This policy should be applied with due observance of the municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Council and Municipal Manager as well as between the Municipal Manager and other responsible officials. All delegations in terms of this policy document should be recorded in writing.

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11.2. Authority

Any deviation from this policy for whatsoever reason must be authorized by the Municipal Manager and in the case of the municipal manager, the Mayor will authorize.

12. IMPLEMENTATION OF THIS POLICY

- 12.1. This policy will be effective from the date the policy is approved per council resolution.
- 12.2. The implementation of this policy cannot be backdated and all sections thereof will only be implemented from date of approval